

# *K-12 EDUCATION*

## **0558 Office of the Secretary for Education**

The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation.

The Office of the Secretary for Education (OSE) no longer administers any local assistance programs. The 2003-04 Budget Act eliminated funding for the Academic Volunteer and Mentor Service Program (\$5.8 million) and shifted both support funding (\$1.3 million) and administration of the School-to-Career Program to the California Department of Education.

For the budget year, the operational costs of the OSE are funded through the Governor's Office of Planning and Research (0650), pending legislation to establish the Secretary statutorily.

## **2003-04 Adjustments**

The Governor proposes an increase of \$80,000 for OSE in 2003-04 to reflect baseline adjustments for retirement costs per Control Section 3.60 of the Budget Act of 2003. OSE reverted \$2.6 million in funds appropriated in 2001-02 for the School Readiness Initiative in order to make reductions per Control Section 4.10 of the Budget Act of 2003.

## **2004-05 Adjustments**

The Governor proposes a net reduction of \$138,000 for baseline adjustments, which reflects adjustments per Control Section 3.60 and ongoing savings of \$216,000 associated with the elimination of three positions per Control Section 4.10 of the Budget Act of 2003.

## **6110 Department of Education**

California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education, for the education of approximately 6.2 million students from kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, education is the responsibility of 983 school districts, 58 county offices of education, and approximately 9,087 schools. More than 301,000 full-time-equivalent teachers are employed in public schools statewide.

## Total K-12 Funding (All Funds)

The 2004-05 Governor's budget proposes \$58.1 billion in total funding for K-12 education, which reflects an increase of \$1.9 billion (3.3 percent) above the proposed 2003-04 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, and federal) totals \$9,614 in 2004-05, an increase of \$216 above the \$9,398 per-pupil rate in 2003-04.

<b>Table 1</b>				
<b>Summary of Revenues</b> (dollars in thousands)	2003-04 Revised	2004-05 Proposed	\$ Change	% Change
General Fund*	\$29,556,900	\$30,357,400	\$800,500	2.7
Local Property Taxes	13,885,000	14,923,600	1,038,600	7.5
Lottery Fund	793,400	793,400	0	0.0
Other State Funds	90,100	85,900	-4,200	-4.7
Federal Funds	7,118,800	7,159,500	40,700	0.6
Local Debt Service	1,195,500	1,195,500	0	0.0
Local Miscellaneous	3,543,100	3,543,100	0	0.0
<b>Total Funds</b>	<b>\$56,182,800</b>	<b>\$58,058,400</b>	<b>\$1,875,600</b>	<b>3.3</b>
<b>Per Pupil Funding</b>	<b>\$,9398</b>	<b>\$9,614</b>	<b>\$216</b>	

\* General Fund includes Proposition 98 and Non-98 Funds.

As indicated by Table 1, the \$58.1 billion for K-12 education includes \$30.4 billion (52.3 percent) from the state General Fund; \$19.7 billion (33.9 percent) in property taxes and other local revenues; \$7.2 billion (12.3 percent) in federal funds, \$793 million (1.4 percent) in state lottery funds and \$86 million (.2 percent) in other state funding.

As proposed, the total General Fund (Prop 98 and Non-98) increases by \$800.5 million (2.7 percent) and local property taxes increase by \$1.0 billion (7.5 percent). The budget also reflects an increase of \$40.7 million (0.6 percent) in federal funds, although this figure will be updated at May Revise to reflect new amounts in the Consolidated Appropriations Act (H.R. 2673) signed by President Bush on January 23, 2004. This Act contains the appropriations for Labor, Health and Human Services (HHS), and Education departments for federal fiscal year 2004.

## Proposition 98

Total Proposition 98 funding for K-14 education in 2004-05 is proposed at \$46.7 billion, an increase of \$768.9 million (1.7 percent) over the revised 2003-04 budget. While an increase, the level of Proposition 98 funding proposed by the Governor in 2004-05 is \$2 billion below the level required to meet the Proposition 98 minimum guarantee.

The \$768.9 million increase in Proposition 98 funding in 2004-05 is completely covered by the allocation of additional local property tax revenues to K-14 education. As indicated in Table 2, Proposition 98 General Fund revenues actually decline by \$426.3 million in 2004-05 due to an estimated net increase in property taxes of \$1.2 billion.

The net increase in property taxes under Proposition 98 is the result of three different factors: (1) the Governor's proposal to shift \$1.3 billion in additional local property taxes to the Education Revenue Augmentation Fund (ERAF) in order to support K-14 education; (2) a \$1.3 billion reduction in property taxes to K-14 education as a result of the "triple flip" financing structure to pay for the Economic Recovery Bond (pursuant to Chapter 2, Statutes of 2003, Fifth Extraordinary Session); and (3) an increase of \$1.2 billion in estimated local property taxes due to K-14 schools from general increases in local property tax receipts.

<b>Table 2</b>					
<b>Proposition 98 Summary</b> (dollars in thousands)	2003-04 Budget Act	2003-04 Revised	2004-05 Proposed	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
K-12 Education	\$38,891,843	\$41,480,820	\$41,937,017	\$456,197	1.1
Community Colleges	4,623,085	4,358,857	4,678,804	319,947	7.3
Dept. of Developmental Services	11,624	10,863	10,758	-105	-1.0
Dept. of Mental Health	17,851	13,400	8,400	-5,000	-37.3
Dept. of Youth Authority	37,685	36,781	34,041	-2,740	-7.4
State Special Schools	38,017	40,302	40,302	0	0
Indian Education Centers	3,778	3,778	4,330	552	14.6
<b>Total</b>	<b>\$43,623,883</b>	<b>\$45,944,801</b>	<b>\$46,713,652</b>	<b>\$768,851</b>	<b>1.7</b>
<i>Prop 98 Fund Source</i>					
State General Fund	\$28,842,957	\$30,166,130	\$29,739,800	\$-426,330	-1.4
Local Property Taxes	\$14,780,926	\$15,778,671	\$16,973,852	\$1,195,181	7.6
<b>Total</b>	<b>\$43,623,883</b>	<b>\$45,944,801</b>	<b>\$46,713,652</b>	<b>\$768,851</b>	<b>1.7</b>
K-12 Enrollment-ADA*	5,990,495	5,978,127	6,039,207	61,080	1.2
K-12 Funding per ADA*	\$6,588	\$6,940	\$6,945	\$5	

\* Average Daily Attendance

As indicated in Table 2, of the total \$46.7 billion in Proposition 98 spending proposed for 2004-05, \$41.9 billion is attributable to K-12 and \$4.7 billion is for Community Colleges. The K-12 share of the Proposition 98 minimum funding level increases by \$456.2 million (1.1 percent) and the Community Colleges funding increases by \$319.9 million (7.3) percent. Community College funding grows at a higher rate due, in large part, to a \$200 million funding deferral from 2003-04 to 2004-05, which distorts true year-to-year comparisons in funding.

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 61,080 in the budget year, an increase of 1.2 percent over the

revised current-year level. Average per-pupil Proposition 98 funding is estimated to be \$6,945 in 2004-05, an increase of \$5 over the \$6,940 per pupil funding in 2003-04.

### Major Adjustments for 2003-04

- **Proposition 98 Settle-Up.** The Governor estimates that -- primarily as a result of higher-than-expected state tax revenues -- Proposition 98 funding for K-14 is below the minimum guarantee by \$517.8 million in 2002-03 and \$448.4 million in 2003-04. The Governor proposes that funding for the “settle-up” of these expenditures, which is needed to meet the Proposition 98 Constitutional guarantee in these fiscal years, be “deferred” until 2006-07.
- **Proposition 98.** The budget provides a \$261.4 million increase for revenue limit apportionments that reflects a shift of costs from 2002-03 to 2003-04 due to an unexpected increase in the amount of the second principal apportionment deferral.
- **Governor’s Mid-Year Reductions.** The Governor does not propose any reductions in Proposition 98 funding as a part of his proposed mid-year reductions unveiled in November 2003. The Governor’s proposed reductions to education were targeted at higher education -- excluding Community Colleges -- and student financial aid.
- **Section 4.10 Reductions.** The budget includes a \$3.3 million General Fund reduction and a \$145,000 reduction from other funds to eliminate 46 regular positions and 3 visiting educator positions per Control Section 4.10 of the Budget Act of 2003.

### Major Adjustments for 2004-05

- **Growth Funding.** The budget provides \$406.2 million to fully fund statutory enrollment growth for apportionments and categorical programs. The budget provides \$279.8 million for revenue limits; \$37.4 million for special education; and \$89 million for various other categorical programs.
- **Cost-of-Living Adjustments (COLAs).** The budget provides \$742.4 million to fully fund statutory COLAs for K-12 revenue limit and categorical programs in 2004-05. This provides a 1.84 percent COLA for revenue limits (\$554.8 million); special education (\$70.0 million); and various other categorical programs (\$117.6 million) that require a COLA pursuant to state statute.
- **Equalization.** The budget proposes \$109.9 million for revenue limit equalization to address disparities in base funding among school districts.
- **Public Employees Retirement System (PERS).** The budget includes an increase of \$106.0 million to cover PERS rate increases for school districts and county offices of education.
- **Unemployment Insurance (UI).** The budget provides \$136.0 million to fund reimbursements to local education agencies for costs associated with a doubling of the UI rates.

- **Deferred Maintenance.** The budget provides \$250.3 million to fully fund the Deferred Maintenance program -- an increase of \$173.3 million in 2004-05. Funding for this program decreased by \$ 128.7 million in 2003-04.
- **Instructional Materials.** The budget provides an additional \$185 million to restore funding for the Instructional Materials Block Grant in 2004-05. Funding for this program decreased by \$75 million in 2003-04. New funding is intended to be used to purchase textbooks from the 2002 English Language Arts adoption and the 2005 History and Social Science adoptions.
- **Internet Access.** The budget provides \$21.0 million to county offices of education to provide high-speed Internet access for schools.
- **Restoration of Deferred Appropriations.** The budget proposes using \$144.4 million in one-time Proposition 98 Reversion Account funds to restore funding for some programs subject to deferred appropriations schedules. Of this amount, \$98.1 million fully restores funding for Targeted Instructional Improvement Grant program which was deferred from 2003-04 to 2004-05, and \$46.3 million partially restores appropriations from the School Safety Program that were deferred from 2004-05 to 2005-06.

### Program Reductions

- **Categorical Program Eliminations.** The Governor proposes to end seven small categorical programs for a total savings of \$32.6 million in 2004-05. These programs include: Teacher Credentialing Pre-Internship (\$8.0 million)<sup>1</sup>; Charter Schools Facilities Grant program (\$7.7 million); Local Arts Education partnerships (\$6.0 million); Academic Improvement and Achievement (\$5.0 million); Early Intervention for School Success (\$2.2 million); Healthy Start (\$2.0 million) and School-to-Career (\$1.7 million).
- **Mandate Claims.** The budget proposes to continue the deferral, or in some cases suspension, of all education mandates identified by the Commission on State Mandates. The Administration has not provided an official estimate of annual savings for 2004-05. Annual savings are estimated at over \$300 million in 2003-04.

### Major Issues

**Proposition 98 – Rebasing (Suspending).** The \$752 million increase in 2004-05 K-14 Proposition 98 funds is estimated by the Governor to be \$2 billion below the level that would otherwise be provided under the minimum guarantee. As a result, the Governor proposes that Proposition 98 be “rebased” at a level approximately \$2 billion below the level otherwise required by law. This action would require suspension of Proposition 98 in 2004-05. Suspension of the constitutional funding requirements of Proposition 98 requires the Legislature to approve the suspension in a bill -- separate from the Budget Bill -- with a two-thirds vote. According to preliminary estimates by the Legislative Analyst’s Office, the state is likely to save \$2 billion annually for several years under the Governor’s suspension plan. In addition,

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<sup>1</sup> The Teacher Credentialing Pre-Internship program is administered by the Commission on Teacher Credentialing.

suspension would create an additional \$2 billion maintenance factor, which the Governor estimates would be repaid over the four years. The Governor proposes, in agreement with the education community, the following priorities for use of maintenance factor repayment funds in 2004-05 and beyond: (1) restoration of revenue limit deficits (reductions and COLAs) from 2003-04; (2) funding for valid education mandate reimbursements; and (3) splitting any remaining funds -- 75 percent for revenue limits and 25 percent for other state funding priorities.

**Proposition 98 -- Current- and Prior-Year Settle-Up.** The Governor estimates that Proposition 98 funding for K-14 is below the minimum guarantee by \$517.8 million in 2002-03 and \$448.4 million below in 2003-04. These changes are the result of higher-than-expected state tax revenues, changes in student attendance and apportionment costs, and a shift of K-12 operating costs from 2002-03 to 2003-04, due in large part from an increase in the deferral amount of the second principal apportionment. The Governor does not propose providing funding to meet the Proposition 98 guarantee in 2002-03 or 2003-04, nor does the Governor propose suspending Proposition 98 in 2003-04. (Suspension is an option for addressing the problem in 2003-04; it is unclear whether suspension is an option for 2002-03.) Instead, the Governor proposes that funding for “settle-up” of these past-year and current-year expenditures, which are needed to meet the Proposition 98 constitutional guarantee, be “deferred” until 2006-07. The Governor further proposes using any future funds appropriated for settle-up for one-time purposes such as instructional materials, training, and deferred maintenance. The 2004-05 budget assumes that the Proposition 98 guarantee is fully funded at the minimum level in 2002-03 and 2003-04.

**Total K-12, Proposition 98 Funding Available.** The Governor proposes roughly \$1.9 billion in additional spending for K-12 schools in 2004-05. These new funds are the result of \$456 million in new Proposition 98 funds, an estimated \$1.1 billion in K-12 Proposition 98 funds “freed-up” from one-time expenditures, and \$300 million in program savings (child care reductions, program eliminations, and other program savings.) The Governor proposes using \$1.2 billion of these additional funds to cover statutory growth and COLA for revenue limits and categorical programs. In contrast, the 2003-04 budget provides growth for revenue limits and special education only but does not provide COLAs for any programs. The 2003-04 budget also reduces revenue limits by 1.2 percent (\$350 million). The Governor also proposes \$730 million for various program increases in 2004-05 including: PERS and UI employer rates (\$242 million); revenue limit equalization (\$110 million); deferred maintenance (\$173 million); instructional materials (\$188 million); and high speed Internet access (\$21 million). The Governor proposes a \$612 million decrease in General Fund dollars in 2004-05, which is only possible due to a \$1.0 billion net increase in property tax revenues in 2004-05.<sup>2</sup>

**Revenue Shift/Educational Revenue Augmentation Funds (ERAF).** The Governor proposes to shift \$1.336 billion in ERAF funding from local governments to K-14 education, which

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<sup>2</sup> For K-14 education (K-12 and Community Colleges) the Governor proposes a net decrease in General Funds of \$426 million and a net increase in local property taxes of \$1.2 billion in 2004-05.

reduces the General Fund obligation to K-14 education by \$1.336 billion in 2004-05.<sup>3</sup> Of this amount, \$1.168 billion is shifted to K-12 programs and \$168 million is shifted to community colleges. According to the Legislative Analyst, this equates to roughly a 25 percent increase in ERAF obligations or a 10 percent decrease in local property tax revenues. Without this shift, the state would have to provide \$1.3 billion more General Fund for Proposition 98 than the Governor's budget or approximately \$869 million more from General Fund than the 2003-04 budget.

**Categorical Reform -- Major Funding Eliminations & Shifts.** The Governor proposes to eliminate separate funding for 22 categorical education programs (listed below) and shift \$2 billion in funding for those programs to revenue limits in 2004-05. Funds shifted into revenue limits could be used for general purposes, or schools could continue to provide funding for categorical purposes if they desired.

**Figure 2**  
**Programs Governor Proposes to Transfer to Revenue Limit – 2004-05**  
*(Dollars in Millions)*

<u>Program</u>	<u>Amount</u>	<u>Program</u>	<u>Amount</u>
Home to School Transportation	\$519.6	Tenth Grade Counseling	\$11.4
School Improvement	396.1	Specialized Secondary Program Grants	5.1
Staff Development Day Buyout	235.7	School Library Materials	4.2
Targeted Instructional Improvement Grant	205.1 <sup>a</sup>	International Baccalaureate	1.1
Instructional Materials Block Grant	175.0	Intersegmental Staff Development	2.0
Supplemental Grants	161.7	Bilingual Teacher Training	1.8
Beginning Teacher Support & Assessment	87.5	At Risk Youth	0.6
Year Round Schools	84.1	Civic Education	0.3
English Learners Student Assistance	53.2	Pupil Residency Verification	0.2
Mathematics & Reading Professional Development	31.7	Teacher Dismissal Apportionment	0.0
Peer Assistance and Review	25.9	<b>Total</b>	<b>\$2,024.4</b>
Dropout Prevention	21.9		

<sup>a</sup>. Only includes the voluntary desegregation funding and not court ordered funding.

The Governor utilizes several general criteria in selecting programs for inclusion on the list of programs to be shifted. Generally, programs were selected if: (1) funding allocations to districts have been stable historically; (2) most districts participate in the program; (3) funds are not targeted for special needs students; and (4) there are few legal restrictions on the use of funds.

<sup>3</sup> To balance the state budget in 1992-93 and then again in 1993-94, the Legislature and Governor Wilson permanently shifted more than \$3 billion in property tax revenues from counties, cities, special districts, and redevelopment agencies to each county's Educational Revenue Augmentation Fund (ERAF) to benefit K-14 education (K-12 schools and Community Colleges). These shifted funds reduce the state's General Fund obligation for K-14 education by a commensurate amount. In 2003-04, it is estimated that cities, counties, redevelopment agencies, and special districts will deposit \$5.171 billion into ERAF; the estimate for 2004-05 is \$5.527 billion.

While not the intent, the list of programs includes some major categorical programs directed to serve special populations and specific purposes, such as Home-to-School Transportation, Targeted Instructional Improvement Grants, Instructional Materials and English Learner Student Assistance. Elimination of special funding for these categorical programs will be an issue for the Legislature, as many categorical programs have been established to reflect important educational goals and priorities.

The Governor does not propose elimination of the Education Code statutes for these programs, as a part of consolidation, in order to allow local education agencies (LEAs) to continue programs through revenue limit funding. However, the Governor does propose eliminating the specific funding requirements for these programs in statute.

### **Categorical Reform -- Other Program Consolidations and Eliminations**

- **Charter Schools.** The budget shifts \$21.9 million in funding from the Charter School Block Grant program to a new revenue limit set-aside program for charter schools. The budget also directs an additional \$24.5 million for this new revenue limit program from funds shifted as a part of the proposed shift of \$2 billion from 22 categorical programs into revenue limits. Total funding for the charter school revenue limit program is proposed at \$46.4 million in 2004-05. In addition, the budget proposes moving another \$14.5 million from the Economic Impact Aid portion of the Charter School Block Grant to the Economic Impact Aid budget item where it will be set aside for charter schools.
- **School Safety.** The budget consolidates funding for school safety programs into a single school safety budget item in 2004-05. This change maintains funding for the School Safety Block Grant, consolidates funding for five competitive school safety programs, and maintains separate funding for safety plans for new schools. A total of \$17.6 million would be transferred from these programs, bringing funding for the School Safety Block Grant to a total of \$99.7 million in 2004-05.
- **Native American Program.** The budget consolidates the American Indian Centers program with the Native American Indian Early Childhood Education program.

**Instructional Materials.** The budget provides \$185 million to restore funding for the Instructional Materials Block Grant in 2004-05, bringing total funding to \$363 million. However, the Governor also proposes to shift \$175 million in existing Instructional Materials Block Grant funds to revenue limits as a part of the categorical program consolidation proposal. The net effect of these actions is to increase funding for revenue limits by \$175 million and increase special funding for instructional materials by \$10 million.

**Special Education – Federal Funding Offset.** The budget provides a \$107.4 million increase for special education programs to cover enrollment growth (\$37.4 million) and a 1.84 percent COLA (\$70 million), consistent with the Governor’s proposal to provide statutory growth and COLA’s for apportionment and categorical programs in 2004-05. In contrast to other programs, special education growth and COLA are funded primarily by \$74.5 million in new, estimated federal IDEA funds, in addition to \$23.6 million in local property taxes and \$9.3 million state General Funds. Under current law, new federal special education funds are treated as an “offset” to state funding and not as an augmentation that would increase special education base funding level by that amount. This offset complies with state law that requires federal funds to be used to



offset state funds in any year where total funding for special education funding is higher than the prior year.

**Special Education -- Mental Health Services.** The Governor proposes to continue \$69 million in federal IDEA<sup>4</sup> funds as reimbursement to county mental health agencies for mental health related services to students with disabilities in 2004-05 (AB 3632 services). California is slated to receive a significant increase in new federal IDEA funds for 2004-05 -- beyond the level proposed by the Governor -- due to higher levels of funding for states contained in the federal Consolidated Appropriations Act recently signed into law. The Governor and Legislature may consider a variety of purposes in appropriating these funds, including expansion of funding for AB 3632 services. In addition, the Legislature may consider funding enhancements for foster youth with disabilities. Such enhancements are tied to reforms of the LCI/NPS<sup>5</sup> funding formula, as recommended by a state-funded study conducted by American Institutes of Research in 2003.

**Ongoing Defferrals.** The Governor's Budget proposes to continue \$1.2 billion in various K-12 programs deferred from 2002-03 to 2003-04. These deferrals were enacted last year as a part of a package of mid-year budget reduction proposals and involve a shift in second principal apportionment payments, referred to as P-2 payments, from June to July 2003. The 2003-04 Budget Act restored a net total of \$609.7 million in deferrals from previous years, which creates additional capacity for spending in 2004-05.

**State Mandate Reimbursements.** The budget proposes to defer or suspend all funding for education mandates in 2004-05. This is consistent with budget actions in recent years. The Administration is concerned about state audits of education mandate claims that found high rates of disallowable costs. In response, the Administration plans to seek legislation to reform state law governing mandates and address the new and ongoing state liability for these mandates. The Administration estimates that the cost of education mandates is in the hundreds of millions of dollars (based on unaudited claims). According to the Legislative Analyst, the state's liability for ongoing, unpaid claims in 2003-04 exceeds \$1 billion. The annual cost for mandate reimbursements is estimated at over \$300 million alone in 2003-04. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

**PERS Revenue Limit Offset.** The Governor's 2004-05 budget continues \$36 million in funding for the PERS Revenue Limit Offset, pursuant to Chapter 794; Statutes of 2001. The Administration also proposes trailer bill language to cap the PERS Offset at 13.02 percent.

**New Policy Initiatives.** The Governor's *Budget Summary* identifies several policy issues that have not been formally developed at this time but are likely to be proposed through budget trailer bills. While there is not much detail on these proposals at this time, these policy initiatives include:

- **School-Site Budgeting.** The Administration is developing options for giving more control of school resources to principals, teachers, and parents. Legislation is being developed to improve public awareness and scrutiny of local budgets and to increase school site

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<sup>4</sup> Individuals with Disabilities Education Act (IDEA).

<sup>5</sup> Licensed Children's Institutions/Non-Public Schools.

participation in academic and budget decisions. This proposal is tied to the Governor's proposal to shift categorical funds to revenue limits.

- **School District Academic Accountability.** The Administration proposes to add a district level component to the state's school-based accountability program. The Administration proposes developing a set of district academic targets as a part of the state's testing system and Academic Performance Index. This proposal is also tied to the Governor's proposal to shift categorical funds to revenue limits.
- **School District Fiscal Accountability.** The Administration is interested in reforming school district budget oversight due to concerns about the fiscal problems that many school districts face. The Administration intends to develop a process for identifying districts in fiscal trouble early on so that experts can intervene to prevent insolvency. The Administration supports a number of specific reforms in this area to: (1) better specify definitions for fiscal insolvency; (2) establish clear guidelines for budget projections; (3) require County Superintendents to review and comment on the budget impact of all collective bargaining agreements; (4) provide Superintendent of Public Instruction authority to assign the county office Fiscal Crisis and Management Assistance Team (FCMAT) to districts in fiscal trouble; (5) improve the process governing emergency loans and state takeovers for troubled school districts; and (6) require districts to develop an allocation plan to the public and to county superintendents for fully restoring their reserve for economic uncertainty by 2005-06, as required by law.
- **Improving the Allocation of Funding among School Districts.** The Administration is concerned with the state's complex and uneven system of allocating general purpose funding among school districts and will investigate options for improving the current system.
- **Administrator Compensation.** The Administration expresses concern about excessive compensation practices for school districts administrators, including high annual salaries for some district administrators, separate retirement systems of questionable legality and future liability, and extended severance packages. The Administration states these practices should be reformed.
- **Facilities Funding for Alternative Education Programs.** The Administration is concerned that current state school funding policies for continuation high schools, community day schools and county community schools may result in excess costs and are in need of reform. Currently the state uses the State School Facilities Formula to fund these schools. At the same time, revenue limits for community day and community schools provide allowances for facility rent or lease.

### Child Care Programs

**Background.** The state makes subsidized child care services available to (1) families on public assistance and participating in work or activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare-to-work.

Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed “stable” and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the “working poor”). Child care services for Stage 3 are divided into two tiers: General Child Care is available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

**2004-05 Child Care Policy Proposals.** The proposed 2004-05 Budget contains a total of \$2.37 billion (both General Fund and federal funds) to provide child care services to CalWORKs and former CalWORKs recipients, as well as the “working poor”.

As part of his 2004-05 budget, the Governor proposes a variety of programmatic reforms to the state’s subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more “equity” between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms would (1) limit eligibility, (2) increase costs to families, (3) limit the amount of time families can receive care, and (4) decrease the reimbursement rates to providers. Further, the Governor has included an additional \$2 million in his budget proposal to develop a program aimed at mitigating and eliminating fraud within the various child care programs. At the time of this publication, the exact statutory language associated with the above-noted reforms is still pending; however, the proposals are outlined in broad terms below.

**Family Fees.** The budget proposes to lower the threshold at which families start paying a child care fee. Currently, a family of three does not begin paying child care fees until the family income reaches \$1,950 a month (\$23,400 per year). This proposal would decrease that threshold (for a family of three) to \$1,560 a month (\$18,720).

Under this proposal, family fees would be paid directly to providers (which is a change from current practice) and would be capped at no more than 10 percent of their income (i.e., \$156 per month based on the above scenario). Currently, fees are capped at no more than 8 percent of household income (\$125 per month, based on a \$1,560 per month income).

Further, the Governor proposes to limit the fee exemption in current law which allows the families of children who receive child care due to a professional referral (teacher, psychologist, etc.) to avoid paying any family fees. Under these circumstances, the professional alleges that the child may be at risk of abuse or neglect. The Governor’s proposal would require families falling into this category would begin paying fees after three months. Families referred for child care services by Child Protective Services (CPS) would be allowed a one-year moratorium and would begin paying fees after that time.

**Limiting Eligibility.** The Governor proposes to limit program eligibility in a variety of ways, including changes to child age limits, income eligibility thresholds, and capping the length of time families may receive subsidized care. More specifically:

- **Age Limits.** The proposal would redirect children ages 11 and 12 years to state and/or federally subsidized after-school programs where they would receive first priority for enrollment. In cases where these types of programs are either not available or not appropriate to the work hours of the family, these children would still be eligible for subsidized child care services.

Staff notes that the Governor's Budget does not include an increase in state funding for before- and after-school programs to compensate for the above-noted shift in children. DOF staff note that they are expecting additional federal revenues for the 21<sup>st</sup> Century After School Learning Centers Program to be forthcoming.

- **Income Eligibility.** The Governor's proposal uses a three-tiered eligibility system that would reduce the income eligibility threshold for families living in lower-cost and mid-cost regions of the state; while holding income eligibility constant for families in higher-cost areas. As an example, under the Governor's draft proposal, a family of two living in San Francisco (high-cost county) would be ineligible for child care when their annual income reaches \$32,760, compared to \$29,784 if they lived in Fresno (low-cost county). For a family of four, those incomes would be \$39,000 and \$35,448, respectively. The Administration's intent is to codify the dollar figure associated with the income cap and then modify it annually based on the California Necessities Index (CNI) rather than basing income eligibility changes as a percentage of State Median Income.
- **Time Limits.** The proposal would place limits on the length of time families may receive subsidized care. In the case of children who are receiving care because their family member is enrolled in an education and/or training program, the Governor's proposal would limit care to two years.

CalWORKs families would be limited to two years in Stage 2 child care services (after they are off of cash aid) and 1 year in Stage 3 child care services. After that time, CalWORKs families would need to compete with the remainder of the "working poor" for a limited number of subsidized general child care slots. CalWORKs families that are currently in Stage 3, and have been off of cash assistance for three years, would be allowed one more year of services before being forced to compete for the general child care slots.

**Reimbursement Rates.** In order to further reduce costs within the child care program and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to child care providers, while adopting a "tiered" funding mechanism (similar to a salary schedule) which would compensate providers more if they are licensed and accredited. Further, this new tiered schedule would reimburse providers caring for both subsidized and private-pay clients at a higher rate.

## 6120 California State Library

There are no significant budget proposals related to the California State Library. Funding for the Public Library Foundation (PLF) is proposed to remain constant at the current-year level of \$15.8 million.